



# **Programa de Fortalecimiento de las Microfinanzas Rurales (FOMIR/DAI) Quarterly Report**

***April - June 2003***

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## INTRODUCTION/BACKGROUND

### INTRODUCTION

The Rural Financial Markets Activity (RFM) was designed to address one of the Intermediate Results under USAID/El Salvador's Strategic Objective No. 1—"Expanded Access and Economic Opportunity for Rural Families in Poverty"—which seeks to create income generating opportunities for the rural poor, thus contributing to the mitigation of the overall poverty in the country. The RFM's role is to expand and improve the availability of financial services to the rural poor.

USAID/El Salvador contracted Development Alternatives, Inc. (DAI) in November 1998<sup>1</sup> to implement the Rural Financial Markets Activity. The RFM (identified as the "Programa de Fortalecimiento de las Microfinanzas Rurales/FOMIR-DAI" or FOMIR/DAI) initiated activities in January 1999 with the arrival of the Chief of Party in El Salvador.

### MAJOR RESULTS AREAS

The principal objectives of the RFM are to improve the performance and sustainability of selected microfinance institutions serving rural areas of the country, increase the outreach of micro credit services, and increase the availability of rural savings services. In July 2001, USAID amended DAI's contract to continue until September 31, 2003. The three major results areas defined for the RFM to be accomplished by the end of the fifth year are therefore to:

- Improve the degree of financial sustainability of six selected microfinance institutions and the operational sustainability of eight selected microfinance institutions;
- Increase the outreach of these institutions in rural areas by establishing at least 7 new branches that combined serve 20,000 new borrowers, and make at least 7,000 loans of \$400 or less; and
- Increase savings by at least \$400,000 among 4,000 poor rural clients, served by six secure savings institutions.

Included in these three major results areas, the RFM seeks to reduce delinquency rates to less than 10 percent and to help selected institutions gain access to commercial sources of funding to ensure their microfinance activities continue to exist and grow without reliance on donor funding after the termination of the project. A minimum of 5 nongovernmental organizations are to have access to commercial sources of funding by the end of year five.

The RFM supports the selected institutions by providing training, technical assistance and funding. This program of assistance is designed to improve their performance and capabilities, increase their service coverage, maintain healthy and dynamic loan portfolios, attain financial sustainability, and access new sources of commercial funds.

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<sup>1</sup> Contract No. 519-C-00-99-00005-00.

## ORGANIZATION OF THE REPORT

This progress report submitted for the project and covers the period from April 1, 2003, through June 30, 2003.<sup>2</sup> The report is divided into the following major sections:

- Results for the Quarter
- Progress Toward Accomplishment of Major Results Indicators
- Grantee Results for the Quarter
- Expanding Access to Capital
- Preparations for National Microfinance Conference
- Capitalization Fund
- Market Information Unit
- Information Technology Initiative
- Training Activity for the Quarter
- Consulting Activity for the Quarter
- Financial and Administrative Information
- Counterpart Contribution
- Summary Table of Key Indicators for the Project

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<sup>2</sup> The effective date of the contract was November 3, 1998. Start-up did not begin officially until contract signing on November 23. Target dates used throughout this report are rounded to the end of the month.

## RESULTS FOR THE QUARTER

Summary of Quarterly Results (April - June, 2003)		
	Planned	Actual
Total New Rural Borrowers:	20,000 Borrowers	31,946
Total New Loans Under \$400:	7,000 Loans	10,950
Total New Points of Service	7 Points of Service	48
Average Portfolio at Risk:	<10%	6.92%
Operational Sustainable MFIs	8	9
Financial Sustainable MFIs	6	8
No of NGOs obtaining commercial bank funds	5	5
No. of Institutions with improved statutes	6	6
No. Saving Institutions serving rural clients	6	6
Number of Active Depositors	4,000	7,804
Growth in Savings Accounts	\$400,000	\$794,185.58

### Accomplishments:

- FOMIR/DAI assisted MFIs are now serving 50,398 clients or 31,946 new active borrowers, a 173% increase over the baseline and 11,946 more than the end of contract target of 20,000 new rural clients
- FOMIR/DAI assisted MFIs registered a net increase in loans below \$400 to rural clients (a measure of serving the poor) of 10,950 surpassing the end of year five target of 7,000.
- FOMIR/DAI succeeded in reaching end of year five targets ahead of schedule in operational and financial sustainability, delinquency, outreach, and savings.
- FOMIR/DAI expanded coordination effort in the sector, providing information on partner MFIs to the BMI, IDB, BCIE and donors, facilitated introductions for potential investors with selected MFIs, and, initiated planning meetings for sector wide training courses and a national conference in 2003 with BMI, Conamype, Fundamicro and Asomi.
- FOMIR/DAI assisted MFIs registered a weighted-average for portfolio at risk more than 30 days of 6.92%, demonstrating sound credit management.
- The Superintendent of Banks indicated satisfaction with the institutional changes made by ACCOVI as part of the regulation process. A final decision is expected in August.
- Total urban and rural portfolio for the 11 partner institutions increased by more than 7% during the quarter to an end of June figure of \$101.8 million.

### Priority Activities for FOMIR Next Quarter:

- *Conduct studies and document findings from National Conference on Strengthening the Microfinance Industry*
- *Complete the process to transfer assets to all grantee institutions.*
- *Complete project demobilization activities efficiently and on time.*

## PROGRESS TOWARD ACCOMPLISHMENT OF MAJOR RESULTS

### Indicators: June 30, 2003

The following tables provide consolidated results for the end of the third quarter – FY 2003 for new active rural borrowers. Partner institutions reported an increase of 5,539 rural active borrowers. FOMIR is pleased to report a 3,834 client increase for Calpia due to increased demand for the ag/microenterprise product developed with FOMIR assistance. ACCOVI, ADEL/AMC, FUSAI/Integral and CAM each reported client increases of more than 300 clients.

Rural Clients		Rural Active Borrowers	
Institution	To 03/31/02	To 06/30/03	Change
Adel Morazán	5,228	5,544	316
Financiera Calpiá	5,174	9,008	3,834
Fundación Duarte	1,579	1,519	(60)
ASEI	3,717	3,802	85
FUSAI	8,915	9,249	334
CAM	14,174	14,515	341
Banco Agrícola	1,442	1,294	(148)
Banco Salvadoreño	1,375	1,576	201
ACACSEMERSA	1,367	1,457	90
ACACU	876	997	121
ACCOVI	1,012	1,437	425
	<b>44,859</b>	<b>50,398</b>	<b>5,539</b>

FOMIR/DAI's year-end target for FY 2003 is 20,000 new rural active borrowers. At the end of the third quarter (fiscal year), FOMIR-assisted microfinance institutions (MFIs) currently have 50,398 active rural borrowers or 31,946 new active borrowers, a 173% increase over the baseline. Women constitute 31,706 or 70.68% of the current rural active rural clients.

Rural Clients		Rural Active Loans		
Institution	Baseline*	To 06/30/03	Women Borrowers	Change
Adel Morazán	1,368	5,544	3,411	4,176
Financiera Calpiá	0	9,008	1,674	9,008
Fundación Duarte	0	1,519	1,234	1,519
ASEI	860	3,802	3,197	2,942
FUSAI	617	9,249	6,843	8,632
CAM	15,504	14,515	11,778	(989)
Banco Agrícola	0	1,294	1,049	1,294
Banco Salvadoreño	103	1,576	1,286	1,473
ACACSEMERSA	0	1,457	921	1,457
ACACU	0	997	635	997
ACCOVI	0	1,437	960	1,437
<b>Totals</b>	<b>18,452</b>	<b>50,398</b>	<b>32,988</b>	<b>31,946</b>

In terms of loans disbursed for amounts of less than \$400 to rural clients, grantee institutions registered 26,359 loans as of June 30, 2003, an increase of 1,270 from the previous quarter. The net increase in loans below \$400 to rural clients (a measure of serving the poor) is 10,950 surpassing the end of year five target of 7,000.

Rural Loans of \$400 or Less							
Institution	Baseline*	To 06/30/2003	Change	Baseline*	Total Women	Increase	% to 06/30/2003
Adel Morazán	349	1,957	1,608	206	1,298	1,092	66.33%
Financiera Calpiá	0	1,925	1,925	0	745	745	38.70%
Fundación Duarte	0	990	990	0	838	838	84.65%
ASEI	889	3,708	2,819	705	3,117	2,412	84.06%
FUSAI	56	3,835	3,779	22	3,247	3,225	84.67%
CAM	14,115	11,807	(2,308)	11,292	9,605	(1,687)	81.35%
Banco Agrícola	0	367	367	0	298	298	81.20%
Banco Salvadoreño	0	727	727	0	628	628	86.38%
Acacsemersa	0	417	417	0	330	330	79.14%
Acacu	0	212	212	0	162	162	76.42%
Accovi	0	414	414	0	330	330	79.71%
	15,409	26,359	10,950	12,225	20,598	8,373	78.14%

The number of rural active depositors at the end of the quarter was 7,804. The end-of-project target is 4,000 rural depositors.

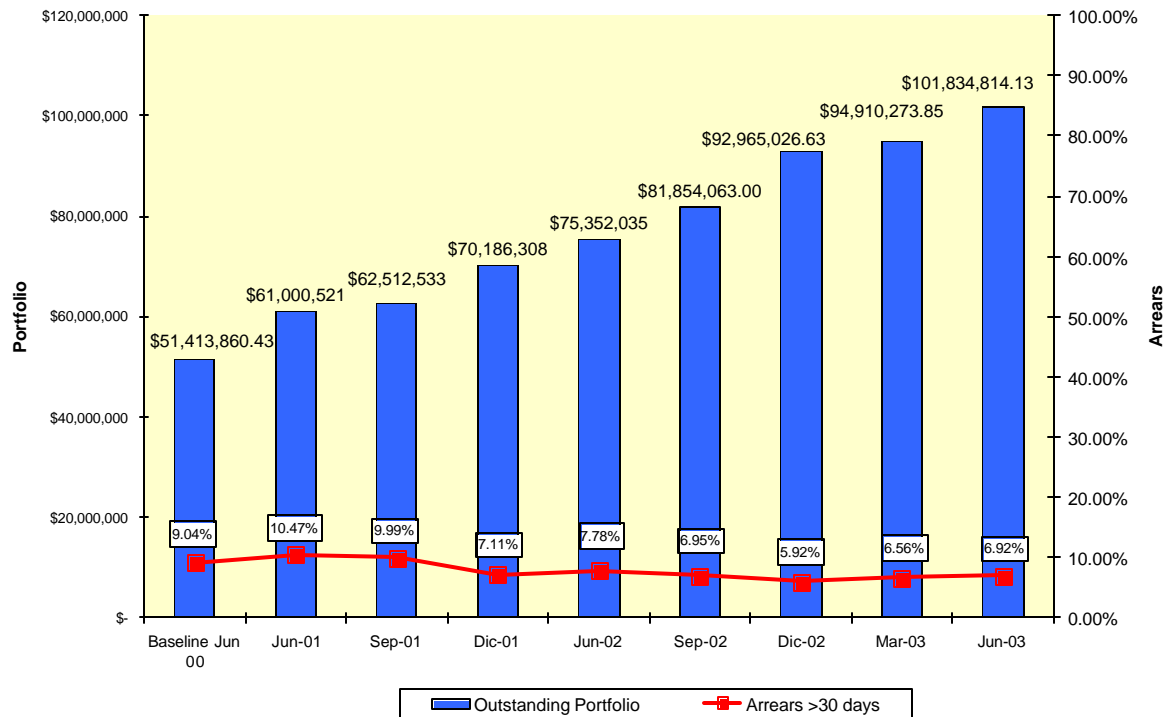
Rural Active Depositors **							
Institution	Baseline*	To 06/30/2003	Change	Baseline*	Total Women	Increase	% to 06/30/2003
Financiera Calpiá	0	1,589	1,589	0	905	905	56.95%
Banco Agrícola	0	1,377	1,377	0	950	950	68.99%
Banco Salvadoreño	0	1,429	1,429	0	1,228	1,228	85.93%
Acacsemersa	0	1,024	1,024	0	698	698	68.16%
Acacu	0	983	983	0	638	638	64.90%
Accovi	0	1,402	1,402	0	981	981	69.97%
	0	7,804	7,804		5,400	5,400	69.20%

\*The number of depositors for Banco Agrícola, Banco Salvadoreño, Acacsemersa, Acacu and Accovi is calculated based on the number of new rural clients of active microcredit loans with deposit accounts.



In terms of overall urban and rural portfolio, the 11 MFI's served by the project reported a less than 2% increase in total portfolio during the quarter, bringing the total amount of credit outstanding to \$101.8 million. Today, 100,946 clients are served by FOMIR/DAI's 11 partner institutions, 50,398 are rural microfinance clients.

### Arrears and Portfolio Monitoring to June 2003



Results against each outreach indicator are presented in the table below.

### RESULTS: INCREASED OUTREACH BY QUARTER

Target Indicator	Year Five Targets	Year Five Third Quarter	Comments
No. of new branches/agencies serving rural clients	7	48	<ul style="list-style-type: none"> <li>(6) CALPIA opened a new agency in Ahuachapán in 1999, Metapán in March 2000, and Cara Sucia and San Juan Opico in 2001. Santa Rosa de lima in April and Armenia in June 2003.</li> <li>(2) CAM opened a new agency in Zacatecoluca in 2000 and Chalatenango in May 2003</li> <li>(6) ADEL Morazán opened new branches in Ciudad Barrios in 1999 and in Santa Rosa in 2000.</li> <li>(2) ASEI opened branches in Santa Ana and Cojutepeque</li> <li>(14) Banco Agrícola commenced microfinance lending in 11 rural branches in 2000, in Chalatenango in 2001 and in Sonsonate and San Vicente in 2003.</li> <li>(13) Banco Salvadoreño increase microfinance lending to 10 branches during the last quarter.</li> <li>(2)FJND opened new agencies in Santa Ana and San Miguel in 1999.</li> <li>(1) FUSAI opened branches in Ahuachapán and Colon in 2002</li> <li>(2) ACACSEMERSA opened a branch in Chalchuapa in December 2002.</li> </ul>
No. of NGOs obtaining commercial bank funds	5	5	<ul style="list-style-type: none"> <li>CAM has access to and use of commercial bank financing.</li> <li>ASEI, ADEL, FUSAI and FJND have obtained commercial bank financing through a capitalization mechanism.</li> </ul>
No. of new active rural borrowers	20,000	31,946	<ul style="list-style-type: none"> <li>See table above.</li> </ul>
No. of new rural loans of \$400 or less	7,000	10,950	<ul style="list-style-type: none"> <li>See table above.</li> </ul>
<b>Savings</b>			
No. of secure savings institutions offering services to rural clients	6	6	<ul style="list-style-type: none"> <li>CALPIA offers savings in rural areas.</li> <li>Banco Agrícola and Banco Salvadoreño offer savings in rural areas to clients in their microfinance portfolios.</li> <li>ACACU, ACOVI, and ACACSEMERSA all offer savings.</li> </ul>
No. of active depositors	4,000	7,804	This represents CALPIA's number of rural savers in two agencies receiving direct assistance from FOMIR and the number of increased borrowers in Banco Agrícola, Banco Salvadoreño, and the CU's as a result of the microlending program.
Growth in savings accounts (in U.S \$)	\$400,000	\$794,185.58	As reported by CALPIA in two agencies and Banco Agrícola, Acacsemersa, Acacu and Accovi for saving amounts of new active rural borrowers.

### RESULTS: SUSTAINABILITY INDICATORS

FOMIR measures financial sustainability by the ability of the organization to collect sufficient revenues from clients to cover the full opportunity cost of its activities, including financing at commercial rates. A financial institution whose revenues cover all of its operational costs but not its financial costs is considered to be operating at operational sustainability. The table on the following page provides information on the sustainability and portfolio risk management indicators for FOMIR grantees.

Target Indicators	Targets End of Year Five	Year Five Third Quarter Actual	Comments
No. of institutions that are operationally sustainable	8	9	<ul style="list-style-type: none"> <li>• ASEI reports operational sustainability ratio of 84.96% as of 06/30/03.</li> <li>• CALPIA reports operational sustainability ratio of 106.93% as of 06/30/03.</li> <li>• FJND reports operational sustainability ratio of 68.51% as of 06/30/03.</li> <li>• ACACU reports operational sustainability of 118.55% as of 06/30/03.</li> <li>• ACACSEMERSA reports operational sustainability of 117.80% as of 06/30/03.</li> <li>• CAM reports operational sustainability of 128.22% as of 06/30/03.</li> <li>• FUSAI/Integral reports operational sustainability of 104.59% as of 06/30/03.</li> <li>• ACCOVI reports operational sustainability of 117.12% as of 06/30/03.</li> <li>• ADEL/AMC reports operational sustainability of 103.06% as of 06/30/03.</li> <li>• Banco Agrícola and Banco Salvadoreño are operationally sustainable.</li> </ul>
No. of financially sustainable institutions	7	8	<ul style="list-style-type: none"> <li>• ASEI reports financial sustainability of 82.12% as of 06/30/03.</li> <li>• CALPIA reports financial sustainability of 99.97% as of 06/30/03.</li> <li>• FJND reports financial sustainability of 68.34% as of 06/30/03.</li> <li>• CAM reports financial sustainability of 118.76% as of 06/30/03.</li> <li>• ACACSEMERSA reports financial sustainability of 105.86% as of 06/30/03.</li> <li>• ACACU reports financial sustainability of 112.39% as of 06/30/03.</li> <li>• FUSAI/Integral reports financial sustainability of 103.82% as of 06/30/03.</li> <li>• ACCOVI reports financial sustainability of 111.58% as of 06/30/03.</li> <li>• ADEL/AMC reports financial sustainability of 101.14% as of 06/30/03.</li> <li>• Banco Agrícola and Banco Salvadoreño report financially sustainable in their microfinance product line.</li> </ul>
% of portfolios more than 30 days past due	<10%	<ul style="list-style-type: none"> <li>• 8.58%</li> <li>• 2.21%</li> <li>• 6.92</li> <li>• 10.35%</li> <li>• 10.79%</li> <li>• 10.61</li> <li>• 6.68%</li> <li>• 2.08%</li> <li>• 4.51</li> <li>• 8.05</li> <li>• 22.83%</li> </ul>	<ul style="list-style-type: none"> <li>• ADEL</li> <li>• CALPIA</li> <li>• FUSAI</li> <li>• ASEI</li> <li>• FJND</li> <li>• CAM</li> <li>• Banco Agrícola (only MF line)</li> <li>• Banco Salvadoreño (only MF line)</li> <li>• ACACSEMERSA</li> <li>• ACACU as of 05/31/2003</li> <li>• ACCOVI</li> </ul>
No. of improved statutes of financial institutions	6	6	<ul style="list-style-type: none"> <li>• ADEL Morazán separated its microfinance program from its other activities and registered AMC as a savings and credit society.</li> <li>• FUSAI has separated credit operations, acquired new portfolio, and modified its credit technology. They have also registered Integral as a finance company.</li> <li>• FJND has improved financial management capacity, reporting, and has begun to allow men in rural areas to access loans.</li> <li>• ASEI created a new organizational structure including the creation of a board finance committee, reorganization of the finance and administrative function, and strengthening of credit operations.</li> <li>• ACCOVI has complied with the regulation requirements of the superintendent, and awaits final word on its regulated status.</li> <li>• Banco Salvadoreño has adopted new microfinance product line, management structures with additional coordinators, and an incentives scheme.</li> </ul>

### **GEOGRAPHIC DISTRIBUTION OF BRANCHES AND AGENCIES**

The map on the following page displays the current geographic location of rural branches and agencies of the 11 FOMIR supported institutions. Forty-eight points of service have been added as a result of project activity to date bringing the total number of rural points of service to 78.



## GRANTEE RESULTS

### AMC LTD. (ADEL MORAZAN)

AMC had a net growth of 316 rural clients, and added \$135,511 in outstanding portfolio during the quarter. As of June 30, ADEL/AMC exceeded the goal established with FOMIR for rural active borrowers by 344. In addition, sustainability indicators presented an important improvement during the quarter as the investments made in previous quarters are positively affecting continued sustainable growth.

#### Summary of Portfolio Growth

<i>Outreach Results</i> <b>As of June 30, 2003</b>	<b>ACTUAL</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	5,544	5,200	107%
Total Active Borrower	5,544	5,200	107%
Rural Active loans ≤ \$400	1,957	1,716	114%
Points of Service in Rural Areas*	7	7	100%
Number of Loan Officers	21	22	96%
Clients Per Loan Officers	264	236	112%

(\*) Includes the office in Corinto that operates as a point of service for clients but is not a full-fledged branch.

#### Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	2,405,127	2,640,391	2,979,527	3,120,371	3,255,882
Total Active Loans	3,639	4,424	5,004	5,332	5,676

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	7.24%	7.42%	6.59%	8.71%	8.58%
Portfolio at Risk > 90 Days	3.73%	4.07%	3.63%	4.22%	4.42%

At June 2003 portfolio at risk indicators for AMC showed a slight improvement in respect to the previous quarter. This is a key area where AMC is focusing efforts to continue improving the current situation.

<i>Sustainability</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	107.58%	102.60%	104.06%	90.18%	103.06%
Financial Sustainability	107.58%	99.75%	100.50%	87.03%	101.14%

Sustainability indicators for June 2003 when compared to March 2003 present an important improvement as AMC has reached its financial break-even point during the quarter. Growth in portfolio and income during the quarter provided the necessary base to reach this important level. Quarter sustainability indicators decreased during the previous quarter as a

result of increased administrative expenses resulting from the creation of new positions to accommodate a redesigned operating structure. This new operating structure is considered necessary to support the continuation of the planned expansion.

### **Summary of FOMIR/DAI Activities for the Quarter**

- FOMIR provided guidance and advice in evaluating the overall performance and efficiency of the information systems operation. Based on the evaluation, FOMIR supported AMC in the development of an action plan to improve the overall efficiency in terms of operation and costs;
- FOMIR supported the execution of a training program for AMC's directors on the key elements of operating and managing a financial institution. This training program has been executed through a specialized training institute with trainers from the banking and government financial regulatory institutions.
- AMC's General Manager continued participation in the COLCAMI/ISEADE microfinance diploma program with financial support from FOMIR/DAI;
- An AMC Branch Manager participated in a study tour to Bolivia, which was designed and executed by FOMIR and included visits in Bolivia to Prodem and Caja los Andes.

### **Activities to be Executed During the Next Quarter**

- With FOMIR assistance, the General Manager should complete the COLCAMI/ISEADE microfinance diploma program during July.

## **ASOCIACION SALVADORENA DE EXTENSIONISTAS EMPRESARIALES DEL INCAE - (ASEI)**

During the quarter, ASEI recorded increases in total portfolio and number of clients. ASEI strengthened the new solidarity group credit line, and continued to develop the individual credit line for its launch in the next quarter. As of June 2003, ASEI complied 100% with the target established with FOMIR for rural clients.

### **Summary Statement of Portfolio Growth, Management and Quality**

<i>Outreach Results As of June 30, 2003</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	3,802	3,791	100%
Total Active Borrowers	6,325	6,600	96%
Rural Active loans ≤ \$400	3,708	3,600	103%
Points of Service in Rural Areas	3	4	75%
Number of Loan Officers	35	33	106%
Clients Per Loan Officers	181	200	91%

The clients per loan officer ratio improved during the quarter when compared to March 2003, as the newly hired loan officers have developed their "solidarity group" portfolios.

### Summary of Sustainability or Profitability Indicators

<i>Portfolio Growth</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	\$362,035	\$392,088	\$627,413	\$598,735	\$643,399
Total Active Loans	5,104	5,318	6,760	6,420	6,376

As the new solidarity group product line continues to develop, ASEI's average loan has increased as a result of the larger amounts associated with solidarity groups. As of June 2003, ASEI's average loan was at \$100, up from \$70 in June 2002.

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	9.51%	9.77%	7.20%	8.81%	10.35%
Portfolio at Risk > 90 Days	4.93%	6.18%	4.65%	4.41%	6.83%

Portfolio at risk indicators increased during the quarter when compared to March 2003. This increase was a result of monitoring problems in the central region of the country in the new solidarity group product line. ASEI has been taking corrective actions and has analyzed and executed certain policy changes to better manage collections.

<i>Sustainability</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	124.11%	90.12%	82.71%	75.36%	84.96%
Financial Sustainability	112.03%	89.78%	79.28%	71.69%	82.12%

As had been presented in ASEI's projections, the sustainability indicators began to show an increasing trend during the quarter, as the new solidarity product line continued to grow and develop. The income generated from this product line is covering an increasing portion of the costs associated with it.

### Summary of FOMIR/DAI Activities for the Past Quarter

- FOMIR provided technical assistance to evaluate and strengthen the quality of customer service at ASEI. In addition, the technical assistance provided tools and training for ASEI to periodically gauge customer service quality;
- FOMIR supported training in solidarity group credit technology and portfolio administration for ASEI's coordinators. This training was executed through a study tour to the internationally recognized MFI, Genesis Empresarial of Guatemala which specializes in solidarity group lending;
- Three of ASEI's top operative managers participated in a study tour to Bolivia, which was designed and executed by FOMIR. As part of the study tour, participants visited several recognized MFI's to observe and learn about their operation in general. The MFI's visited in Bolivia included Prodem and Caja los Andes;



- FOMIR provided technical assistance for developing a market study for identifying and evaluating additional rural markets for the expansion of ASEI's new and existing microfinance product lines. The study was initiated in June and is expected to be concluded in July. The study will present information in relation to potential clients profile and the products and services offered by the main competitors to ASEI.

### Activities to be Executed During the Next Quarter

- FOMIR will provide training to ASEI's top managers and board members on successful strategies for launching an individual microcredit product line. This training program, to be executed in July, will be the last element of the pre-operating phase for launching the individual loan program of ASEI;
- FOMIR will support the training of ASEI's general manager, who will participate in the management training program at INCAE, Costa Rica. Through this program, ASEI's manager will strengthen his knowledge and know-how in areas like human resource management, financial management, internal control, marketing and other subjects needed for ASEI's continued expansion and institutional strengthening. ASEI is assuming 50% of the cost of the training program.

### CENTRO DE APOYO A LA MICROEMPRESA - (CAM)

The institution continued to reverse the trend of declining number of clients with a net increase of 341 total clients in the last quarter. CAM finished the quarter with 20,860 total clients, which reflects a 18.4 % increase when compared to June 2002. Rural clients grew by 341 during the past quarter. The 14,515 rural clients at June 2003 represent an increase of 10.6% in rural clients compared to June 2002. CAM had 88% compliance in the number of rural clients goal established with FOMIR for June 2003.

### Summary of Outreach Indicators

<i>Outreach Results</i> <b>As of June 30, 2003</b>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	14,515	16,500	87.97%
Total Active Borrowers	20,860	22,500	92.7%
Rural Active loans $\leq$ \$400	11,807	13,600	86.8%
Points of Service Rural Areas	7	6	116.7%
Number of Loan Officers	84	100	84%
Clients Per Loan Officers	248	225	110%

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio	\$2,951,000	\$3,144,000	\$4,272,000	\$4,158,000	\$ 3,855,300
Total Active Loans	18,104	17,998	19,775	20,675	21,281

Total portfolio presents a decline of 7.2% when compared to March 2003. CAM stated that they had experienced a decline in the amount solicited by clients for their loans. The institution is actively working on evaluating the situation and developing strategies to reverse this trend.

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	4.9%	3.9%	3.7%	6.31%	10.61%
Portfolio at Risk > 90 Days	2.8%	2.4%	1.4%	2.0%	4.14%

The impact of portfolio deterioration in the Sonsonate branch continued to be experienced by CAM during the quarter. The institution continued with the implementation of measures to improve the situation at this location including changes in personnel. It is expected that the results of these actions will show improving portfolio at risk indicators in July.

<i>Sustainability</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	145%	131.46%	127.81%	139.43%	128.22%
Financial Sustainability	142%	131.23%	122.67%	125.08%	118.76%

### **Summary of FOMIR/DAI Activities for the Quarter**

- During the quarter, FOMIR concluded the technical assistance effort initiated the previous quarter with the purpose of increasing coverage and market penetration in rural areas. The technical assistance consisted of workshops and on the job training sessions with CAM's personnel in contact with clients in the field;
- CAM inaugurated a new point of service in Chalatenango with the purpose of providing better service to existing clients and increasing penetration in this location's area of influence. FOMIR supported this effort through the procurement of office equipment;
- During the quarter, FOMIR supported Windows 2000 Server and SQL 2000 Server training;
- A supervisor and a branch manager of CAM participated in a study tour to Bolivia;
- CAM's General Manager participated in "Paving the Way Forward": An International Conference on Best Practices in Rural Finance, at Washington D.C.

## FINACIERA CALPIA

Calpia growth during the last year has been exceptional. Overall portfolio grew by \$18 million during the year (June 02-June 03) and clients increased by 4,625. Over the life of the project Calpia has added 9,008 clients.

### Summary of Outreach Indicators

<i>Outreach Results As of June 30, 2002</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	9,008	4,345	207.3%
Total Active Borrowers	39,226	43,000	91.2%
Rural Active loans ≤ \$400	1,533	N/A	N/A
Points of Service in Rural Areas	12	12	100%
Number of Loan Officers	123	121	102%
Clients Per Loan Officers	319	355	90%

The rural active borrowers table above includes clients from Ahuachapán and Metapán, two agencies started with USAID support in 1999 and clients that have obtained the ag/microenterprise loan designed and implemented with FOMIR assistance.

During the previous year, FOMIR has been assisting Financiera Calpia through Frontier Finance International to help develop and launch new products targeted to rural families who generate their income from farm-related and other microfinance activities.

During the past quarter the number of new clients accessing the ag/microenterprise products increased from 1,832 to 5,120. Growth in portfolio has lead to increased profitability and low arrears.

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio US\$	35,214,093	38,667,502	45,618,700	48,736,791	53,304,911
Total Active Loans	35,380	42,077	42,820	37,320	40,005

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	3.1%	2.76%	2.20%	2.26%	2.21%
Portfolio at Risk > 90 Days	2.6%	2.25%	1.62%	1.79%	1.54%

<i>Sustainability Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	95.67%	95.75%	99.07%	104.67%	106.93%
Financial Sustainability	89.01%	87.46%	91.64%	92.07%	99.97%

**Summary of FOMIR/DAI Activities for the Quarter**

- Monitored progress by Frontier Finance in rural/agriculture product design and implementation including the preparation of an update review.

**Key Activities for the Next Quarter**

- The final visit for ag/microenterprise consultant will take place to review Calpia's rural ag/microenterprise portfolio growth quality.

## FUNDACIÓN JOSÉ NAPOLEÓN DUARTE (FJND)

FJND revised and began implementing a new financial strategy during the quarter to reach financial sustainability. Also during the quarter FJND complied with the provisioning requirements established in the plan agreed with FOMIR. Although the institution closed June with a decline of 60 rural active clients, resulting in a net total of 1,519 new active rural clients, they still exceeded outreach targets. This total represents a 107% compliance with the June target established with FOMIR.

### Summary of Portfolio Growth

<i>Outreach Results As of June 30, 2002</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	1,519	1,425	107%
Total Active Borrowers	2,888	3,500	82%
Rural Active loans ≤ \$400	990	1,200	83%
Points of Service in Rural Areas	2	3	67%
Number of Loan Officers	17	20	85%
Clients Per Loan Officer	170	175%	97.1%

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	1,058,010	1,183,629	1,192,330	1,081,176	1,070,958
Total Active Loans	2,634	3,371	3,312	3,055	2,893

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	13.94%	12.98%	9.63%	12.88%	10.79%
Portfolio at Risk > 90Days	9.97%	8.91%	6.12%	8.61%	7.7%

Portfolio decreased by 1% in relation to the previous quarter. Nevertheless, the portfolio value represented a 102% of the goal agreed to with FOMIR in the new financial projections. Portfolio at risk ratios demonstrated an important decrease during the quarter as a result of the use of the newly established MIS as well as the execution of the plan accorded with FOMIR for arrears reduction.

<i>Sustainability Quarterly Trends</i>	<b>June 2001</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	95.75%	75.87%	81.41%	73.46%	68.51%
Financial Sustainability	81.00%	71.29%	70.35%	73.11%	68.34%

The sustainability indicators for June 2003 show a decline when compared to the previous quarter and June 2002. The adoption of several necessary measures for institutional strengthening has been increasing administrative and operating costs. One such measure is the creation of reserves for bad debt in accordance with the new stricter policy adopted by the institution. From January to June 2003 the institution has created \$59,752 in reserves. FJND

and FOMIR worked and defined a new financial strategy during the quarter to improve the situation.

### **Summary of FOMIR/DAI Activities for the Quarter**

- FJND and FOMIR revised and analyzed financial projections and executed financial performance. A concrete result of this exercise was the establishment by FJND of a new financial strategy. The new financial strategy provided the basis for the development of immediate actions to improve financial results;
- Monitored compliance with the plan established to complete the provisioning for bad debt in accordance with the new policy established with FOMIR/DAI. By June 2003 the institution had created provisions to completely cover the amount needed in accordance with the new policy adopted;
- FOMIR provided guidance and advise for the implementation of the new operating software at FJND, for which FOMIR provided support, was completed during the quarter;
- The process supported by FOMIR to strengthen communications links all the agencies was finalized;
- FOMIR supported FJND with certain previously accorded operating expenses for rural agencies;
- FJND's general manager participated in the COLCAMI/ISEADE microfinance diploma program with financial support from FOMIR/DAI.

### **Activities to be Executed During the Next Quarter**

- FOMIR will support the execution of the "Integrated Training Program" at FJND which consists of a series of workshops in aspects related to microcredit technology, governance, customer service, internal control, marketing and promotion and financial management. Participants in the training program will include operating staff of all levels as well as board members. The training program is also consistent with areas that need to be strengthened that are important elements in the new institutional strategy to reach financial sustainability. It will be executed during July;
- FOMIR will continue supporting FJND with certain previously accorded operating expenses for rural agencies during the month of July;
- The FJND Financial Manager will finish his participation in the COLCAMI/ISEADE microfinance diploma program with financial support from FOMIR/DAI.

## FUSAI/INTEGRAL

Integral's priorities during 2003 continue to be the implementation of the Topaz system and establishing the organizational structure, policy, and procedures manuals to guide the organization through the regulatory process and continued growth during the coming years. The institution closed June with a total of 14,678 (non-housing) active loans, \$9.6 million in outstanding portfolio, a 6.92% portfolio at risk over 30 days, and continued to show operational and financial sustainability.

### Summary of Portfolio Growth

<i>Outreach Results As of June, 2003</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers*	9,249	9,163	101%
Total Active Borrowers *	14,678	15,600	94%
Rural Active loans ≤ \$400	3,835	3,200	119%
Points of Service in Rural Areas	7	6	117%
Number of Loan Officers	77	70	110%
Clients Per Loan Officers	191	222	86%

\* Does not include housing loans

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Growth Quarterly Trends</i>	<b>June 2001</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	8,701,970	9,284,615	10,319,296	9,656,588	9,640,776
Total Active Loans*	14,760	15,563	15,633	14,523	14,769

\* Does not include housing loans

During the quarter, Integral grew in numbers of active loans but declined in total portfolio.

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2001</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2001</b>
Portfolio at Risk > 30 days	7.58%	6.50%	6.89%	6.17%	6.92%
Portfolio at Risk > 90 Days	3.60%	3.08%	2.66%	3.04%	4.49%

Integral continued to show operational and financial sustainability for a second consecutive quarter since the company was established in mid 2002, a laudable achievement for a new microfinance institution.

<i>Sustainability Quarterly Trends</i>	<b>June 2001</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	95.42%	98.90%	101%	101%	104.6%
Financial Sustainability	73.11%	84.88%	79%	100%	103.8%

## Summary of FOMIR/DAI Activities for the Past Quarter

During the past quarter, FOMIR/DAI continued to provide Integral with the Long Term Technical Assistance of ACCION's Manuel Torres. In addition to Mr. Torres's daily responsibilities as Integral's Business Manager, he focused efforts on reengineering policies, procedures and operations and developing appropriate manuals and training to comply with the new Topaz system to be implemented in following quarter.

Additional FOMIR/DAI technical assistance and training was provided in the following areas.

- Robin Young and Enriqueta Claramunt met with the Integral IT project management team to review work plans in order to optimize technical assistance for systems completion. The proposal for this assistance was approved to run throughout the following quarter. Ms. Claramunt will provide technical oversight and supervision to the final phase of implementation of Topaz in Integral;
- FOMIR/DAI followed up with Integral to develop and submit its management succession plan discussed one year ago. The plan has Luis Castillo moving to President with two other modifications in Integral's Board membership; Manuel Torres moving to General Manager (under a management contract between Integral and ACCION); and the hiring of a new Business Manager over the next six months;
- Luis Lievano and Reina de Cabezas customized and delivered a two-day training event for Integral's Finance and Business Staff in accounting norms and procedures of the Superintendency of the Financial System (SFS) under the Non-bank Financial Intermediaries Law. The course was designed to prepare Integral's staff for the transition to a regulated intermediary in the coming years and ensure accounting policies begin to align with SFS requirements;
- The technical assistance, conducted by ACCION's Juan Carlos Diaz, in liquidity and treasury management, was designed and initiated during this quarter, with Mr. Diaz's first visit. Data collection, review of SFS requirements, the new Topaz system, and review of Integral's organizational structure and requirements for treasury management were completed. Mr. Diaz is scheduled to return and complete this consultancy, delivering the Treasury Policy and Procedures Manual during the month of July;
- An Integral branch manager participated in a study tour to Bolivia, which was designed and executed by FOMIR. As part of the study tour, participants visited several recognized MFI's to observe and learn about their operation in general. Some of the MFI's visited in Bolivia included Prodem and Caja los Andes;
- Integral's coordinators continued attending the COLCAMI/ISEADE microfinance diploma program with financial support from FOMIR/DAI.



### Activities to be Executed During the Next Quarter

- During July and August FOMIR will continue providing technical assistance to Integral in the implementation of the new TOPAZ software system. This assistance includes financing the support of a central processing system analyst (FOMIR will cover 34% of this cost and Integral will assume 66%) and supervision of this activity by a member of FOMIR's IT unit;
- Integral's coordinators will conclude their participation in the COLCAMI/ISEADE microfinance diploma program.
- During the next quarter, FOMIR will complete the final ACCION CAMEL with Integral, and expects to complete the ongoing transfer of assets process with Integral to complete its grant agreement.

### BANCO AGRÍCOLA

During the quarter, Banco Agrícola's continued to integrated microfinance line of products into the larger Banca MyPE organization, establishing a more permanent and larger organization for the microfinance operations within the bank. Still, the bank reported a decline of 120 rural microfinance clients during the quarter.

### Summary Statement of Portfolio Growth, Management and Quality

<i>Outreach Results As of June 30, 2003</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	1,294	2,372	55%
Total Active Borrowers	1,633	2,400	68%
Rural Active loans ≤ \$400	367	735	50%
Points of Service in Rural Areas	14	15	93%
Number of Loan Officers	21*	27	107%
Clients Per Loan Officers	77	89	87%

\* MYPE loan officers with microfinance portfolios as of June 2003.

<i>Portfolio Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	1,054,229	1,087,189	1,232,201	1,205,816	1,182,421
Total Active Loans	1,657	1,671	1,740	1,657	1,633

<i>Portfolio Quality Quarterly Trends</i>	<b>March 2002</b>	<b>June 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	5.74%	5.20%	6.0%	6.20%	6.68%
Portfolio at Risk > 90 Days	1.04%	1.99%	1.91%	1.61%	2.13%

### Summary of FOMIR/DAI Activities for the Quarter

During the past quarter, Banco Agrícola focused on continued training for its MYPE Bankers, finalizing its software and automatic loan proposals, and starting its rewards program. FOMIR assisted with the following training and technical assistance:

Organized or supported participation in the following training sessions:

- Benchmarking and Financial Management Tools (organized by ASOMI) for two staff members
- COLCAMI/ISEADE Microfinance Diploma program for one staff member
- Legal Aspects of MyPE Credit for MyPE Bankers and Analysts, developed by Bernabe Elias
- Financial Analysis, Risk Management, Portfolio Management and Collections for MyPE Bankers and Analysts, developed by Hector Cisneros

Nancy Natilson conducted a follow-up visit to her initial assignment with the Bank in December. The purpose of this second trip was to review the MyPE Bankers' lending and collections results compared to projections and define the reward program. During the visit, Ms. Natilson also reviewed the emergency arrears reduction plan. The former progressed well with the Bank conducting an award ceremony in which 12 Bankers received cash rewards for their lending and collections performance during the previous months. The second event of this kind is scheduled for August and the Bank hopes to implement a permanent incentive system based on this program next year. The arrears reduction program was less successful, although administrative improvements - such as giving the collections department specific targets to reduce the MyPE portfolio and improving communication between the collections department and MyPE Bankers - seemed to be paying off by the end of the quarter. While growth in the microfinance portfolio has been slow to null over the past year, growth in the overall MyPE portfolio is picking up in recent months.

Gabor Simon provided feedback on MyPE's evolving proposal to develop a loan application administration system and MyPE advanced this proposal working with the Management Reports System Manager.

At the Bank's request, Robin Young organized and led a workshop-meeting to discuss an integrated service model for microenterprise clients (regardless of loan use destination, including housing and consumer loans and other bank services) and provided a summary report with recommendations. Ms. Young also provided a final review of the project and Bank's performance in a close-out memo and meeting with two of the Bank's Vice Presidents and Manager of Micro and Small Enterprise Credit. Key areas discussed include performance of the Bank compared to the rest of the Salvadoran microfinance industry, the Bank's strengths and weaknesses in the microenterprise sector, and recommendations in three areas (human resources, products and integration and support from bank departments such as finance and IT) to optimize the Bank's growth and profitability in microenterprise banking. The Vice Presidents both reconfirmed the Bank's commitment to the sector and interest to develop a more concrete strategy for growth in the MyPE sector.

## BANCO SALVADOREÑO

From March 2002 to June 2003, Banco Salvadoreño's microfinance portfolio increased 47.3% to \$ 2.667 million dollars. Rural active clients increased by 201 to 1,576. The quality of portfolio continued to improve as risk indicators for > 30 and > 90 days were at 2.08% and 0.54% respectively.

Productivity and program results continued to be FOMIR's main focus with the bank since several aspects related to policies, methodologies, and personnel are already in place as a result of FOMIR's assistance to the bank in 2002.

### Summary Statement of Results

<i>Outreach Results As of June 30, 2003</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers	1,576	2,500	63%
Total Active Borrowers	2586	3,000	86%
Rural Active loans ≤ \$400	727	N/A	N/A
Points of Service in Rural Areas	16	10	160%
Number of Loan Officers	33	25	132%
Clients Per Loan Officers	78	112	70%

From the table it is important to note that, although productivity measured in terms of clients per loan officer remains low, it shows a 18% increase when compared to March 2003. The increase in this productivity indicator during the quarter continues the upward trend initiated on September 2002. It is also important to consider that 17 additional credit officers were hired by the program between June and September 2002. As these credit officers build their portfolios the productivity indicator continues to rise.

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	June 2002	September 2002	December 2002	March 2003	June 2003
Total Portfolio US\$	931,200	\$1,000,030	\$1,593,890	\$1,811,050	\$2,667,392
Total Active Loans	1,382	1,528	1,970	2,191	2,568

<i>Portfolio Quality Quarterly Trends</i>	June 2002	September 2002	December 2002	March 2003	June 2003
Portfolio at Risk > 30 days	5.08%	4.94%	2.09%	3.33%	2.08%
Portfolio at Risk > 90 Days	1.31%	3.04%	0.54%	0.86%	0.54%

### Summary of FOMIR/DAI Activities for the Quarter

- Top managers and supervisors of the banks microfinance program continued attending the COLCAMI/ISEADE microfinance diploma program with financial support from FOMIR/DAI;

- FOMIR provided technical assistance by working with managers for Micro and Small Enterprise Credit and their staff for reviewing lending targets and results for the microfinance, microenterprise and small enterprise segments for the first quarter of 2003. Based on the reviews, recommendations were made on changes to targets, incentive system, and organization to optimize lending in the future. In addition, the organization, staff distribution and targets, and product differentiation of the entire micro and small enterprise portfolio was reviewed. Based on this review and the bank's overall strategy for micro and small enterprise finance, recommendations on product and staff rationalization were provided.

### Activities to be Executed During the Next Quarter

- Top managers and supervisors will finish their participation on the COLCAMI/ISEADE microfinance diploma program during July.

## ACACSEMERSA

ACACSEMERSA continued to expand its microfinance portfolio by 90 new rural clients bringing the total number of new active rural clients to 1,457. This number represents a 97.1% compliance with the target established with FOMIR for June 2003, in the very competitive Santa Ana market. In addition, the institution maintains a high level of portfolio health.

### Summary Statement of Results

<i>Outreach Results As of June 30, 2003</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	1,457	1,500	97.1%
Total Active Borrowers *	1,459	1,550	94.1%
Rural Active loans ≤ \$400	417	500	83.4%
Points of Service in Rural Areas	2	1	150%
Number of Loan Officers *	5	9	56%
Clients Per Loan Officers	291	172	130%

**\*Includes only Small & Microenterprise clients and officers**

It is important to note that two loan officers accepted offers from other microfinance institutions during the quarter. One was replaced in June and the other credit officer will likely be replaced in July.

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	2,572,823	2,559,082	2,673,216	2,712,385	2,720,313
Total Active Loans	2,265	1,996	2,387	2,404	2,685

ACACSEMERSA continued to show a growth trend in portfolio during the quarter. The new point of service at Chalchuapa will continue to support this growth.

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	6.95%	6.24%	5.97%	4.37%	4.51%
Portfolio at Risk > 90 Days	5.0%	4.30%	4.13%	2.10%	2.19%

ACACSEMERSA has maintained a high level of portfolio quality during the period.

<b>Sustainability</b> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	107.58	106.17%	116.43%	103.31%	117.80%
Financial Sustainability	107.58%	105.64	114.81%	94.59%	105.86%

### **Summary of FOMIR/DAI Activities for the Quarter**

- FOMIR supported the execution of the second phase of the technical assistance to strengthen the savings strategy at ACACSEMERSA. This second phase included a training workshop and an action plan to improve the quality and volume of the savings portfolio;
- ACACSEMERSA signed an agreement with the BMI to be part of the “microfinance coverage expansion program” offered by this institution. Through this program ACACSEMERSA will receive significant support for the growth and expansion of its microcredit product line. FOMIR/DAI acted as liaison between the ACACSEMERSA and BMI for the former to apply to this program;
- FOMIR provided close support and guidance during the quarter to continue executing the software implementation process. For a complete description of activities under the software customization plan, please refer to that section of this report.

### **Activities to be Executed During the Next Quarter**

- FOMIR will continue providing close support and guidance during July to conclude the software implementation process.

## ACACU

ACACU increased new rural active clients by 121 during the quarter, bringing the total to 997. In addition, ACACU continued its improvement of portfolio at risk, with over 30 and over 90 days decreasing by 1% and 2.01% respectively. ACACU also hired three additional credit officers for the micro and small business sector during the quarter.

### Summary Statement of Results

<i>Outreach Results As of June 30, 2002</i>	Actual	Projected	Percentage of Target
Rural Active Borrowers*	997	1,300	77%
Total Active Borrowers *	1,008	1,400	72%
Rural Active loans ≤ \$400	212	300	71%
Points of Service in Rural Areas	4	4	100%
Number of Loan Officers*	9	9	100%
Clients Per Loan Officers	112	156	72%

*\*Includes only Small & Microenterprise clients and officers*

### Summary Statement of Portfolio Management and Quality:

<i>Portfolio Quality Quarterly Trends</i>	June 2002	September 2002	December 2002	March 2003	June 2003
Total Portfolio \$	7,768,570	7,947,433	8,200,382	8,339,535	8,737,576
Total Active Loans	3,984	4,123	4,189	4,243	4,436

<i>Portfolio Quality Quarterly Trends</i>	June 2002	September 2002	December 2002	March 2003	June 2003
Portfolio at Risk > 30 days	14%	13%	10.21%	9.05%	8.05%
Portfolio at Risk > 90 Days	8.03%	7.45%	7.20%	7.01%	5%

From the tables it is important to note that since June 2003 there is a continued growth and improvement in portfolio quantity and quality. One of the reasons for this trend is the adoption by ACACU of the mini-portfolio system that was developed and executed with the support of FOMIR/DAI.

<i>Sustainability Quarterly Trends</i>	June 2002	September 2002	December 2002	March 2003	June 2003
Operational Sustainability	117.38%	119.25%	117.79%	117.19%	118.55%
Financial Sustainability	117.38%	118.91%	117.16%	110.92%	112.39%

### Summary of FOMIR/DAI Activities for the Quarter

- Finalized the physical refurbishment of the branch in San Miguel. FOMIR's financial support provided for an adequate space and installations to tend to the needs of an increased number of microfinance clients. The refurbished installations are able to adequately accommodate the new microcredit personnel being hired in this branch;
- Two additional credit officers were hired by mid March to continue expanding the small and micro enterprise portfolio in San Miguel. These salaries will be paid through the

“Expansion of Coverage Program” of the BMI. Through this program, ACACU will receive significant support for the growth and expansion of its microcredit product line. FOMIR/DAI acted as liaison between ACACU and BMI for the former to apply to this program;

- FOMIR provided close support and guidance during the quarter to continue executing the software implementation process. For a complete description of activities under the software customization plan, please refer to that section of this report;
- ACACU’s Sub- Manager participated in “Paving the Way Forward”: An International Conference on Best Practices in Rural Finance, at Washington D.C. This participation expanded understanding of recent trends in microfinance, resulting in stronger analysis skills required for the ongoing development of ACACU’s microfinance program.
- An ACACU branch manager participated in a study tour to Bolivia, which was designed and executed by FOMIR. As part of the study tour, participants visited several recognized MFI’s to observe and learn about their operation in general. Some of the MFI’s visited in Bolivia included Prodem and Caja los Andes.

### Activities to be Executed During the Next Quarter

- FOMIR will continue providing close support and guidance during July to conclude the software implementation process.

## ACCOVI

During the quarter, ACCOVI showed an important increase in the number of rural active clients. This is an important achievement given the regulation process requirements and the implementation of new operational. ACCOVI has a 111% compliance rate in terms of the new rural clients target established with FOMIR

### Summary Statement of Results

<i>Outreach Results As of June 30, 2003</i>	<b>Actual</b>	<b>Projected</b>	<b>Percentage of Target</b>
Rural Active Borrowers	1,437	1,300	111%
Total Active Borrowers *	1,478	1,400	105%
Rural Active loans ≤ \$400	414	400	103%
Points of Service in Rural Areas	4	4	100%
Number of Loan Officers*	10	10	100%
Clients Per Loan Officers	148	140	106%

**Includes only Small & Microenterprise clients and officers**

### Summary Statement of Portfolio Management and Quality

<i>Portfolio Quality Quarterly Trends</i>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Total Portfolio \$	13,767,094	13,940,540	14,255,663	14,029,025	14,755,844
Total Active Loans	4,500	4,750	5,130	5,098	5,148

The apparent increase in arrears during the March and June quarters as presented in the table is due to a change of the information system rather than a real change in portfolio quality. In reality, ACCOVI and FOMIR/DAI have been closely monitoring and working on reducing arrears and have begun to see a decline. ACCOVI's goal is to reduce arrears over 90 days, including accrued interest, to less than 10% during 2003.

<i>Portfolio Quality</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Portfolio at Risk > 30 days	18.06%	15.84%	15.22%	20.08%	22.84%
Portfolio at Risk > 90 Days	15.62%	13.38%	12.70%	15.42%	15.72%

ACCOVI continued to maintain high levels of operational and financial sustainability despite an increase in its cost structure due to investments in systems and the regulatory process. These increased costs are coupled with a downward trend in their overall interest rates, as competition in the credit union's traditional markets increases.

<i>Sustainability</i> <b>Quarterly Trends</b>	<b>June 2002</b>	<b>September 2002</b>	<b>December 2002</b>	<b>March 2003</b>	<b>June 2003</b>
Operational Sustainability	124.93%	121.28%	111.29%	127.55%	117.12%
Financial Sustainability	124.93%	120.85%	110.92%	118.04%	111.58%

### **Summary of FOMIR/DAI Activities for the Quarter**

During the past quarter, FOMIR/DAI continued an intensive technical assistance program to support ACCOVI in the implementation of its regularization plan with the Superintendency of the Financial System (SSF), a process that was concluded at the end of June. The justification and team for this support continue as described in previous quarterly reports.

By the end of the quarter, ACCOVI had a fully functioning Topaz system, was on a downward trend in arrears and had submitted all required information to the SFS for completion of its regularization plan. The credit union is awaiting final review of this documentation and authorization of its system to ensure its full compliance and receipt of its Non-bank Financial Intermediary license from the SFS.

Following is a brief description of the progress to date in each area of the regularization work plan and additional activities that have arisen during development of the work plan.

Regularization plan committee. Ms. Robin Young and Mr. Luis Lievano conducted weekly meetings with ACCOVI's President, General Manager and newly created Executive Management Team to monitor progress on the regularization plan and new software system. Given the high level of activity during this final quarter, multiple meetings were held most weeks to address outstanding issues related to the Topaz system implementation, arrears management and additional requirements and observations of the SFS. In addition, on two occasions, and at the President's request, the FOMIR consultants met with members of



ACCOVI's Board to discuss issues of particular urgency and importance, related to the above mentioned topics, which required Board decision making or support

Development, approval and dissemination of several policy and procedures manuals. Mr. Lievano assisted ACCOVI to develop additional policy and procedures manuals required by the SFS not originally in the regularization work plan. These include: Money laundering; cybernetic terrorism; accounting and MIS (and all IT systems documentation for review and acceptance by SFS). These manuals were drafted in conjunction with appropriate staff and managers, approved by the Board and submitted to the SFS for review.

Building Management Capacity. Mr. John Hallen continued to accompany ACCOVI in its weekly Executive Management Committee and Operations Department meetings. Mr. Hallen also offered workshops to the management team on managerial and leadership styles, communication, and the Myers Briggs personality assessment. In May, the Branch Managers and area Chiefs were included in this meeting, a practice to be repeated once a month. Mr. Hallen organized and led a full Management and Board retreat in June to work on strategy, planning, communication and teamwork. Mr. Lievano and Ms. Young also participated. The reaction of participants to this session was very positive and ACCOVI's Board and Management expressed plans to continue periodic retreats of this kind in the future at least once or twice a year. Finally, Mr. Hallen assisted the newly appointed Human Resources Coordinator to refine and present the employee selection and hiring process policies and procedures, an area that has become critical given the significant employee turnover and newly created positions both of which have created the need for extensive hiring in recent months. In his closing report, Mr. Hallen recommended a review of the management and communication situation in August to evaluate how well the meeting and communication plans are working without direct involvement from FOMIR/DAI consultants.

In addition, in consultation with FOMIR/DAI, ACCOVI named a new Operations Manager and new Internal Auditor (essentially switching the people in these two positions) as well as a new Credit and Collections Supervisor. They also named the newly created position of Compliance Officer and hired, as replacements, new loan officers and collections agents. FOMIR/DAI assisted in the technical training of this new staff through discussions with the head of the Compliance Officers association of ABANSA and for the credit and collections staff through its ongoing arrears management and credit strengthening consultancy.

In general, the new Managers have assumed their responsibilities and improving communication and leadership with and across departments. However, conflicts between these new managers exist, while the somewhat passive leadership and communication style of the General Manager tends to leave a void at the top of the organization. Fortunately, the President has become very active in leading ACCOVI, is aware of the management situation and taking active steps to improve the team.

Coordination with the development and implementation of the new software system to ensure compliance and approval by the SSF. With the final phase of parallel and production of the Topaz system, most of ACCOVI's staff efforts were focused on this project during April and May as well as much of June. The FOMIR consultants assisted by tracking, communicating

and resolving ongoing systems problems and transferring this work methodology to the credit union IT and management committee. ACCOVI, at FOMIR's recommendation, hired a new systems engineer to assist with ongoing programming and system administration. Additional work was done on customizing the system and preparing its documentation per the SFS requirements. For more details on the work completed on Topaz please see the Credit Union IT project section of the quarterly report.

Arrears Management. FOMIR assigned two consultant/trainers (Mr. Ignacio Estevez and Mr. Hector Cisneros) to work with ACCOVI's Operations staff (Operations Manager, Credit and Collections Supervisor, Microcredit Coordinator, Branch Managers, Credit Officers and Collections Agents) to design and implement a plan to improve portfolio quality and strengthen overall credit operations. The consultants, in collaboration with managers and staff at ACCOVI developed and put into practice a number of policies and procedures which immediately began to reduce arrears (tracking systems, collections techniques, write-off and restructuring guidelines), worked with ACCOVI's Board and staff to restructure the credit and collections committees, revised credit worksheets and reports, and conducted an extensive training program (including classroom and field work). Based on the success of this first phase, and at the request of ACCOVI's President and Managers, the consultancy was extended to conduct additional training, revise credit forms and policies, and assist in overall restructuring of ACCOVI's credit operations in June and July. Complete reports on this consultancy are available in FOMIR/DAI's offices.

SSF Site Visits, Updates and Meetings. During the past quarter, ACCOVI received a summary report of the SFS's December site visit. FOMIR assisted the credit union to prepare an action plan to respond to the observations identified in the report and held weekly follow-up meetings to ensure all new tasks assigned were completed satisfactorily. Mr. Lievano assisted with monthly updates and reports to the SFS on ACCOVI's progress on its regularization plan, analysis of the Central Bank's reserve requirements, and investments in Fedecaces, Seguros Futuros and other cooperative organizations for eventual withdrawal of its participation. Mr. Lievano also participated, along with managers from ACCOVI, in meetings with the Legal Intendent of the SFS to review pending issues related to the SFS's observations regarding these investments as well as family remittances, the legal name of cooperative and contracts issued, the exclusion of the Oversight Committee (Comité de Vigilancia) from the list of directors, and the naming of external auditor. In June, Ms. Young and Mr. Doug McLean of FOMIR/DAI and Ms. Sandra Duarte CTO USAID met with the Superintendent Montenegro and Intendent William Duran to discuss ACCOVI's situation and the SFS indicated that ACCOVI appears on track for compliance with its regularization

### **Activities to be Executed During the Next Quarter**

During the month of July, FOMIR will continue providing support to ACCOVI to conclude the regularization and software implementation process as well as continue providing technical assistance in the areas of arrears management, credit analysis and portfolio management.

## EXPANDING ACCESS TO CAPITAL

Based on a request by FOMIR/DAI, the BCIE extended an invitation to several of the FOMIR grantees to attend a presentation of their program for financing portfolio growth of MFI's. The presentation was held on Friday, June 23 at BCIE's office in San Salvador. The following FOMIR/grantee representatives were present at the meeting:

- ACACU: Rafael Espinal (General Manager);
- ACCOVI: Lic. Alvarado (Financial Manager);
- ACACSEMERSA: Ricardo Vanegas, (General Manager) and a Member of the Consejo);
- ASEI: Ricardo Segovia, (Executive Director) and Cesar Medrano (Financial Manager);
- F.J.N.D: Lic. Duarte, (Executive Director);
- INTEGRAL-FUSAI, Luis Castillo (Executive Director)

Other FOMIR grantees such as CAM, CALPIA and AMC had met with BCIE and already knew the information or were working with the program. In addition Bansal and BAC would not be potential users of this program since they are financial intermediaries with availability of funds for their microfinance programs. During the meeting Rolando Castaneda of BCIE presented the following information:

- Minimum requirements needed to be considered eligible to apply for the program;
- Evaluation methodology to be used in analyzing and rating institutions;
- Standards used to rate institutional indicators;
- Amounts that could be available through the program based on the different ratings that could be attained;

The minimum requirements to be eligible for the BCIE program are as follows:

- Three years of operation as a financial institution;
- Positive financial results in the last two periods (measured in terms of positive net profit in P&L);
- Portfolio represents at least 60% of assets;
- Arrears rate for more than 30 days below 15%;

Other ratios and information analyzed as part of the evaluation process:

- Detailed information on portfolio by age categories and refinanced loans;
- Level of provisioning for bad debt;
- Write-offs performed in the last twelve months;

Mr. Castaneda mentioned that the original requirements and evaluation methodology established for the program had been modified. The changes had been made to be able to

measure micro finance institutions with a more appropriate methodology. Originally the methodology used was similar to the one used for commercial banking institutions.

FOMIR grantees present at the meeting:

- Were enthusiastic and appreciative that BCIE had this programs available for the microfinance sector;
- Were positive about the changes made to the evaluation methodology and rating standards with the purpose of improving it to better gauge microfinance institutions;
- Considered that the minimum requirements were for a mature microfinance institution. They mentioned that several of the institutions present at the meeting still were in the process of institutional strengthening and not yet reaching financial sustainability. Thus they considered that there should be a program for institutions on this situation with an evaluation methodology and standards according to their level of development;
- Proposed that BCIE should have a technical assistance program for institutions that did not meet the requirements so that they could work on deficient areas and be able to apply again; and
- Considered it positive to be presented with the information on program requirements. In effect, the requirements became a benchmark to measure their own institutions performance.

In the end Mr. Castaneda reaffirmed the banks interest in supporting the sector. In addition he mentioned that the meeting had been positive since:

- It presented the program for the institutions who might be interested in applying;
- He was able to get opinions on the methodology being used to evaluate and rate the institutions. The opinions expressed were going to be discussed with the banks top authorities with the purpose of considering them in possible future changes to the evaluation methodology being applied.

Two of the FOMIR grantees present at the meeting expressed that they would apply to the program in the next few days, since they considered that the level of their indicators was similar to the standards set by the program.

## PREPARATIONS FOR NATIONAL MICROFINANCE CONFERENCE

Due to various activities undertaken by USAID and FOMIR during the last five years, the basic foundation stones have been laid for the nascent microfinance industry in El Salvador. During the past year, FOMIR/DAI has initiated numerous activities designed to provide key sector players with the opportunity to discuss issues critical to the development of a more competitive industry. Beginning in October 2002, FOMIR/DAI implemented a series of *Associativeness* Workshops, in which participants from partner MFIs identified and prioritized trends likely to impact the microfinance industry within the next three to five years. The term *associativeness* in the workshop title is meant to convey the notion that institutions can increase their individual competitiveness, and that of the industry, through collective action. One important outcome of these workshops has been the interest of partner microfinance institutions (MFIs) to organize and conduct a national conference to present and discuss issues relevant to ongoing development of El Salvador's microfinance industry.

In April 2003, FOMIR met with management of Banco Multisector Inversion (BMI) and CONAMYPE to discuss joint sponsorship of the conference. BMI and CONAMYPE agreed to be a joint sponsor of the conference with FOMIR's 11 partner MFI's providing technical support for the activity.

On August 19<sup>th</sup> and 20<sup>th</sup>, 2003, FOMIR intends to conduct a national conference attended by approximately 200 participants from local microfinance institutions, government officials, donor representatives and staff of institutions that provide support to the local industry. The overall objective of the conference will be to contribute to the growth and development of a healthy, competitive microfinance industry in El Salvador based on an understanding of the history, current trends and challenges within the national and international context. The conference will also provide a venue to bring together key players in the industry and launch a new era of coordinated support to this important sector.

In early May, USAID approved the plan and budget to plan co-ordinate and conduct the conference. The table on the following page provides a summary of short-term technical assistance approved to prepare and deliver the conference.

Title	Conference Task	Name of Consultant	Approved LOE
Conference Technical Coordinator.	Provide overall management of the conference with emphasis ensuring that each session is well organized and implemented within predetermined timeframe.	Maureen Vargas	50 days
Conference Logistics Administrator	Manage conference logistics including negotiation with hotel, development of a detail event schedule, and logistical arrangements related to facilities, participants and presenter needs.	Ana Ruth Cruz	50 days
Industry Specialist	Develop and present a conceptual framework describing the history and development of the microfinance industry within the context of the local economy. Plan and conduct policy workshop.	Claudio Gonzalez-Vega	18 days
Industry Research Assistant	Gather data on local industry and assist in the preparation of conference materials	Rafael Pleitez-Chavez.	15 days
Microfinance Specialist	Present information on the growth, development and experience of prominent MFIs over the last three years, and examine factors related to MFI performance including social impact, legal structures, credit technology, products, factors of the success and challenges for the future.	Nancy Natilson	18 days
New Product Development Specialist	Deliver a workshop on practical steps in new product development.	Juan Buchaneau	5 days
Remittance Specialist	Develop workshop outline, recruit local and international presenters and facilitate workshop on attracting and use of remittances by MFIs.	Judita Eisenberger	10 days
Human Resource Specialist	develop and deliver workshop on human resources constraints faced by growing MFIs	John Hallen	5 days
Information Technology and Communication Specialist	Develop and deliver a workshop in trends in information technology and communication (ITC) that will impact MFI management, accountability and reporting.	Enriqueta Claramunt	8 days
Regulations Specialists	Plan and carry out a plenary session during the conference on recent develops in norms regulated non-bank financial institutions and the experience of a local institution being considered for regulation.	Provided by Contractor assisting Superintendent of Banks	

During the months of May and June the following activities were completed by the conference planning team:

- Finalized title and agenda for the conference: Construyendo la Industria Financiera Competitiva en El Salvador;
- Finalized Venue: Radisson Hotel in San Salvador
- Prepared and delivered presentation to the Minister of the Economy and confirmed his availability to provide keynote address.

- Managed the development of session outlines and presentation material;
- Develop participant database and prepared invitation letters and general advertisement for conference;
- Organized and conducted numerous meetings and focus groups in coordination with session planners;
- Organized and conducted pre-conference workshop on “Institutional Strategies for a Successful Future of Micro-Finances in El Salvador”;
- Developed SOW and contracted for development of an opening session slide show;
- Identified and contracted for audio support during the conference; and
- Designed and contracted for the creation of conference banners.
- Finalized conference agenda.

## CAPITALIZATION FUND

The four partner institutions supported with capitalization funds have disbursed almost all the funds available through the line of credit mechanism. The table below provides a breakdown of level of utilization:

**TABLE 1**  
**LEVEL OF UTILIZATION OF THE CAPITALIZATION FUND AS OF June 30, 2003**  
**Amount in US\$ Dollars**

Institution	Fund Amount	Credit Amount	Balance to be Disbursed	Line of Credit Outstanding	Portfolio Outstanding	Fund as % of Portfolio	Number of clients	
							total	Rural
ASEI	319,943	319,943	28,045	291,898	605,844	48.18%	6,325	3,802
AMC (ADEL)	403,491	403,491	-	403,491	3,255,882	12.39%	5,544	5,544
F.J.N.Duarte	440,000	440,000	-	440,000	1,070,958	41.08%	2,888	1,519
Integral(FUSAI)	553,717	553,717	-	553,717	9,640,776	5.74%	14,769	9,249
<b>TOTAL</b>	<b>1,717,151</b>	<b>1,717,151</b>	<b>28,045</b>	<b>1,689,106</b>	<b>14,573,460</b>	<b>11.59%</b>	<b>29,526</b>	<b>20,114</b>

The MFIs reported the utilization of the line of credit at \$1,689,106 in June (effectively 98% of the total funds). As of the end of March, the consolidated balance of the lines was equivalent to 11.59% of the outstanding portfolios, which represents significant leverage and diversification of the institutions' sources of funds.

It is important to note that the balance to be disbursed of \$28,045 in respect to ASEI represents MFI's continued demonstration of sound financial management by paying down the line of credit as funds are available.

## MARKETING INTELLIGENCE UNIT

During the past quarter, the market intelligence unit gathered and processed data to create the outreach and financial indicators for march 2003 and with the information the second issue of year three for *MicroEnfoque* was created edited and distributed to over 60 institutions.

Reports containing specific information on clients' penetration were created as support of market studies performed by two institutions (ACACU and ASEI) requested by their general managers.

FOMIR assistance to INFORED in developing a SSF-acceptable contract to offer its services to regulated institution was finalized and three institutions (Banco Agrícola, Banco Salvadoreño and Primer Banco de los Trabajadores) are currently awaiting SSF authorization to contract.

The final cycle of the clients' data verification was performed and no errors were found among the nine MFI reviewed. Financiera Calpia and CAM will be reviewed during the final quarter of the contract.

One of the most important activities performed during the quarter was the consultancy for strengthening external auditing processes for microfinance institutions. Senior consultant Howard Brady evaluated the audits based on the following criteria:

1. Project Participants' Compliance with External Audit Requirements.

The consultant evaluated the "form" of financial statements for completeness. If the element was present in the financial statements, they were considered approved. Specifically the requirements were:

Profit and Loss Statement Format
Reserve Policy Note
Reserve "flow" Note
Indemnizations Policy Note
Contents Complete? (excludes Mgt. Letter)
Management Letter
Submitted on time
USAID Audit compliance?
Disclosure of Income and IVA Taxes?

2. Content of the financial statements. The following attributes were selected for measurement:

Clean audit opinion?
Notes/disclosures are clean?
Mgt. Letter issues <b>NOT</b> of concern? <sup>9</sup>



3. Consistency of report finding and work papers or tests. A poorly conducted audit could give a clean opinion, and include all of the disclosures. However, if the tests/workpapers do not support the opinion, then it puts in question the accuracy of the information presented in the audit. The following areas were evaluated with respect to the basis for the audit opinion:

Name of External Auditor
Portfolio Sample tested
Workpapers adequate
Auditor approved to perform SSF Audits
Auditor approved to perform USAID Audits
Comfort with auditor

Auditors were not “pre qualified” prior to this exercise, so program participants were free to choose whichever auditor they deemed appropriate for their institution. However, based on the results of the previous auditor review, credit unions were discouraged from using FEDECACES for the 2002 audit work. Two of the three institutions switched from FEDECACES to another audit firm, demonstrating that they take the audit process seriously. The remaining institution with FEDECACES (ACACU) will be required to have another auditor perform their 2003 audit if assets transferred in 2003 are greater than US\$ 300,000 (FEDECACES is not an approved USAID auditor). The results of this consultancy can be observed in the following table:

Institution Type	Institution Name	Recommendation
MFI	CAM	Accept
NGO	Adel Morazán	Accept
MFI	AMC	Accept
MFI	Fundación Duarte	Accept
MFI	ASEI	Accept
NGO	FUSAI	Accept
MFI	Integral	Accept
Credit Union	ACCOVI	Accept
Credit Union	ACACU	Accept
Credit Union	ACACSEMERSA	Accept
Finance Company	Calpiá	Accept

In comparison with the 2001 audits, the 2002 audits showed many improvements in all the evaluated areas, as all of the institutions took advantage of suggestions, leading to cleaner audited financial statements.

The most important comments and observations for each institution is summarized in the following paragraphs.

**Adel Morazán’s** financial statements were reviewed with respect to all audit requirements and revealed several findings of minor consequence. The most significant included: 1) A loan contract that was not signed but is being honored, 2) discrepancies in certain accounting reconciliations, and 3) not being able to locate documentation regarding permanent

investments. Adel Morazán received a clean letter regarding its compliance with laws and regulations.

All audit requirements related to **AMC** were met. In addition, Moran Mendez performed a larger than required client sample. Management letters disclosed no items of audit or program significance.

**ASEI** should receive the “most improved MFI Audit” award for 2002. Gone are report qualifications noting non-compliance with tax laws and insufficient reserves. Replacing these qualifications is a clean audit opinion, notes documenting 60 client visits (some with reconcilable differences), and all appropriate disclosures.

**CAM** complied with all the audit requirements for 2002 audits. Client visits were more than required (70 visits where 60 were required) and they have established more-strict portfolio reserve policies than the minimum required. Because of other grants and contracts, CAM is required to have 7 separately bound audit reports. Two of these (one English and one Spanish) are based on a fiscal year-end (August 30) to match FINCA’s fiscal year-end. CAM’s income statement reporting format should include the provision for loan losses after costs of borrowing, instead of as a component of expenses. This explicit adherence to the “form” recommendation isn’t a significant reason to reject either this step or the audit. The loan loss provision “flow” should be disclosed in the financial statements.

**Fundación Duarte’s** compliance with the audit requirements improved greatly since the prior year’s audit. No longer is the opinion qualified, and the report included all the required elements, which has been an accomplishment worth noting.

In addition, the auditor noted in his report the results of client sampling. Moreno Portillo sampled 121 clients (more than double the recommended sample size!) and disclosed that 92 were verifiable based on personal contact with the clients, 29 were verified by seeing that the business existed and by reviewing subsequent cash receipts, and 1 was not in accordance with the balance shown by Fundación Duarte. The one disagreement could have been because that loan was in the process of being legally collected. Note that this requirement for disclosure of client testing was not explicit in the instructions, and could have been reported in another fashion (through workpaper review, for example).

**FUSAI’s** audited statements were reviewed as they will be the party receiving asset transfer from FOMIR/DAI. They will likely turn the assets over to Integral, as Integral was created by FUSAI to manage microfinance operations for FUSAI as a separate entity.

FUSAI’s management letter listed areas of internal control deficiency which included differences between accounting books and portfolio tracking systems, that loan loss reserves were IN EXCESS of stated policy, having a loan loss reserve policy which doesn’t explicitly differentiate between “A” quality loans and “E” quality loans, and inadequate monitoring of the BID loan portfolio. The first and last of these issues are the ones that FOMIR’s audit consultant felt are necessary for FUSAI to solve before the next audit so that an internal

control letter for the 2003 fiscal year is clean. Finally, it should be noted that FUSAI was audited by Arias Morales (Deloitte) while Integral was audited by Moran Mendez.

**Integral** is the only institution for which the consultant recommended the asset transfer be held up, until two requirements were met: 1) Increase the number of clients to visit for the portfolio sample evaluation and 2) Finish with this evaluation process. By the time this report was written, both requirements were completed and a confirmation letter was expected from Integral's general manager.

**ACACU** complied with all of the audit procedures and disclosures. Management letters shows non-compliance with the PEARLS financial indicators in most of the areas analyzed. As PEARLES indicators are general goals set by WOCCU for all cooperatives, and as management is working towards achieving best practices in credit union management, this is not seen as a significant deficiency.

ACACU was the only credit union audited by FEDECACES, whose audits last year showed some significant gaps in the work paper quality. As noted below, the quality of FEDECACES audits has increased.

**ACACESEMERSA** complied with all the audit requirements, and employs the services of a proficient auditor, based on a review of his workpaper files. Milton Moreno performed client visits and alternative procedures on the clients whom he was not able to visit.

**ACCOVI**'s director of finance has been in his position for 5 months, and, in that time, ACCOVI has done a good amount of house cleaning. For example, the financial statements disclose no reserve deficiency - while there was one last year - and the financial statements and management letter disclose no items of significant concern. The audit form appears appropriate.

Moran Mendez sampled 78 clients, which is significantly more than necessary. As mentioned below, the clients were all tested through observing internal disbursement and repayment documentation.

**Financiera Calpia's** financial statement was reviewed with the same care as the other participants in the financial reporting exercise. This review did not disclose any issues of non-compliance with established guidelines. This was not surprising, as the minimum standards taken for this financial statement review were taken from examples of SSF approved statements.

The management letter was reviewed, which disclosed no items of significance. Calpia's auditors recommended that Calpia tighten its controls over loan files and adhere to internal controls. A few inconsequential departures were found in internal control application, however the auditor concluded that the system is appropriate and is working well. The inconsequential items are shown to give management a feel for the additional training and/or vigilance needed for Calpia to achieve 100% compliance with established controls. As such, these should not be observed as major faults that would preclude asset transfer.

## INFORMATION TECHNOLOGY INITIATIVE

### CREDIT UNION SOFTWARE CUSTOMIZATION PROJECT

During the past quarter, the credit union customization project was essentially completed, with the credit unions formally accepting final delivery of the system and manuals. In order to ensure intensive involvement of credit union staff and management during this final and critical phase of the project, planning and staff motivation continued to be essential. To this end, FOMIR's project management organized several group and individual meetings with credit union management, users and the supplier's technical team. Project management continued to prepare detailed weekly updates that are available in the FOMIR/DAI offices. A summary of these activities completed during the past quarter are outlined below.

- Finalization of development, testing and acceptance of the additional customized requirements for ACCOVI's regularization plan (including on-line posting of savings accounts, credit risk classification, standardization of country and departmental codes, development of accounting and statistical information, revised accounting structure for loan insurance and client share capital payments, among others).
- Finalization of the intensive on-site users training at the three credit unions. A large group of employees including all key personnel became very familiar with the system and its procedures. This additional training was needed to surpass employees' resistance to changing systems and facilitate the implementation process.
- Testing and revision of user profiles and systems access as part of system security, according to the new roles and institutional policies and procedures.
- Data migration completed for the three credit unions. This phase was particularly difficult, and hence prolonged, due to the many errors and inconsistencies found in the existing data bases and the credit unions' programmers' lack of knowledge about the existing systems required to define and clean-up data for migration.
- Installation of the final system and setting-up parameters in ACACSEMERSA, ACCOVI and ACACU.
- Completion of running the system in parallel with existing systems.
- Modification, testing and implementation of some operations due to re-definitions and/or reconsiderations related mainly to requirements of the Superintendency and particularities of each credit union.
- Full-scale production in the three credit unions was successfully completed on time. ACACU and ACCOVI are working with the new system in all their branches and with the operations on-line. ACACSEMERSA, with only its main office and a new point of service in Chalchuapa - that does not need to be online because of its low volume of operations - was the easiest one to implement.
- Additional training for the new programmers was given to ACCOVI and ACACU in order to reinforce their human resources in the information systems department.
- Full and intensive support was implemented for the daily operation of each institution.
- Additional support was provided during the post-production phase to provide training and support in the establishment of systematic methodology of communication between

programmers and users, control of the maintenance and procedures to install changes to the programs, how to organize and implementation IT management meetings and to develop and supervise work plans to resolve systems problems and ongoing development. FOMIR's project manager executed this work with the credit unions.

The pending activities include revision of the group of reports, which is ongoing and planned to finish during July, as well as additional training in SQL database management for one programmer from each credit union.

## TRAINING ACTIVITIES

Based on the needs of the partner MFIs, a five-day **Human Resource** training course was developed and delivered in two sessions. The training provided practical and theoretical tools and methods for middle managers responsible for human resource management. The overall theme of the course was to provide participants with the key factors involved in helping the MFIs attract and retain motivated and skilled personnel committed to the institution's goals and mission. Topics such as staff recruitment, selection, training, motivation and performance evaluation programs were presented. A total group of fourteen participants from the eleven MFI's completed the training. Panamerican Consulting Group, the company contracted to deliver the training provided four consultants to present the topics. The participants evaluated the training as excellent.

In response to specific MFI request for training, FOMIR/DAI contracted local consultants and sponsored attendance in publicly advertised courses as described below.

A credit-training program was carried out for **Banco Agricola** from March 15 to May 3 to strengthen credit operations by deepening the credit staff's skills and knowledge to achieve institutional goals. Topics such as legal aspects of credit, collections, risk management and financial analysis were included. Mr. Héctor Cisneros and Mr. Bernabé Rodezno were the local consultants identified by the Bank to deliver the course and FOMIR/DAI provided technical support for approvals, contracts and logistics. FOMIR also sponsored two participants to attend the Fundamicro course on Technical Training for Loan Officers.

**ASEI** implements an ongoing process of reviewing and updating the methodologies applied on its credit operation and other functional areas. To support this initiative and as a response to ASEI's request, FOMIR/DAI contracted a consultant to survey client opinions on customer service provided by ASEI and present recommendations on policies and procedures changes that would improve service. Based on the result of this survey, the consultant prepared and delivered a one-day workshop session for all of ASEI's personnel to discuss recommendations from the survey. In the workshop, training was provided on how to implement ongoing client satisfaction assessment tools.

ISEADE/FEPADE prepared a training program on financial management for non-banking financial institutions for **AMC** Board Members on the main aspects related to the operation

and governance of a financial institution. The methodology used combined theoretical and practical sessions to transmit knowledge and experiences on the topics using audiovisual materials and practical cases. Sixteen participants including the president, general manager and branch managers assisted to the training.

FOMIR/DAI also provided support to a number of ongoing training programs that included:

- The ASOMI/COLCAMI Microfinance training course that includes modules in topics such as Human Resources, Financial Tools and Accounting, Benchmarking, Strategic Planning and Credit Methodologies.
- The BMI organized training program that included three more modules: (1) Human Resources and Organization, (2) Leadership, Environment and Regulation and (3) Portfolio Management and Accounting Systems. The organizers are providing a copy of the training materials for FOMIR/DAI's library.
- Three staff members from among the FOMIR partner institutions participated in the USAID sponsored Rural Finance Conference that was held in Washington in June, 2003. During the conference, the lessons and best practices related to the successes and failures in rural finance, agricultural finance, risk management and microfinance policy were discussed.

The final module for FOMIR's **Middle Management Training Program** was conducted during the month of June. As a capstone to the program, a Microfinance Study Tour was carried out from June 23 to the 28th with the participation of nine members from five institutions. Although other institutions were invited to participate, it was not possible due to internal budget constraints. The study tour was carried out in five and a half days as follows:

- A one-day workshop was conducted on June 23 that provided the participants with information related to regulation, the microfinance experience in Bolivia, and other topics. This workshop was organized by Ms. Hillary Miller, Rodolfo Quirós and Mr. Fernando Prado from SEFIR, and included a presentation by Dr. Claudio Gonzalez Vega. Presentations were also made by the Superintendent of Banks and representatives from three local MFIs.
- From June 24 to the 27<sup>th</sup>, participants visited PRODEM and Caja Los Andes, both regulated institutions. The institutions provided general information on credit technologies, their new products development procedures, information systems and other topics related to the microfinance business. On June 28<sup>th</sup>, the group visited a rural agency of PRODEM in Batallas, close to Lake Titicaca. The group also had the chance to visit some rural clients and confirm the information delivered by the institutions.

The participants and FOMIR/DAI training coordinator are scheduled to meet again in order to prepare a presentation on the findings of the study tour, which has been scheduled for July 22. This activity will be the closure of the Middle Management Training Program that the project started on 2002. FOMIR/DAI believes that the objectives of this program have been met since the institutions that participate in the program have prepared actions plans, training programs and other activities as a follow-up to the training delivered by the project. Some

participants have requested a repeat of the first part of the Training of Trainers (TOT) as many considered that the methodologies presented by the TOT consultants were very useful in developing stronger participatory management skills.

### TRAINING ACTIVITY FOR THE QUARTER

Date	Title	Male	Female	Total	Location	Recipients
03/15/03 – 04/05/03	Legal Issues	19	16	35	BA's training center	Micro and Small Business Bankers and Supervisors
04/11/03 – 04/12/03	Portfolio Management and Collections Techniques	16	9	25	BA's training center	Micro and Small Business Bankers and Supervisors
04/24/03 – 04/26/03	Human Resources and Organization	4	5	9	Hotel Princess	Banco Agrícola, Banco Salvadoreño, FJND, CALPIA, AMC de R.L. and CONAMYPE
04/26/03 – 05/03/03	Risk Identification and Management	17	12	29	BA's Training Center	Micro and Small Business Bankers and Supervisors
05/08/03 – 05/10/03	Human Resources Training – First Session	5	10	15	Hotel Santa Leticia	MFI's Human Resources management
05/22/03 – 05/24/03	Human Resources Training – Second Session	4	10	14	Hotel Holiday Inn	MFI's Human Resources management
05/22/03 – 05/24/03	Leadership, Environment, Guidelines and Regulations	4	5	9	Hotel Princess	Banco Agrícola, Banco Salvadoreño, FJND, CALPIA, AMC de R.L. and CONAMYPE
05/03/03 – 06/28/03	Non-Banking Financial Institutions Management	13	3	16	Hotel Tropico Inn, San Miguel	AMC High and Middle Management
05/30/03 – 05/31/03	Financial Tools	7	6	13	Hotel Princess	CAM, Integral, FJND, BA, BANSAL, ASEI, AMC,
06/13/03 – 06/14/03	Benchmarking	3	5	8	Hotel Holiday Inn	ASEI, AMC, BA, BANSAL, INTEGRAL
06/19/03 – 06/21/03	Portfolio management and accounting systems	4	5	9	Hotel Princess	Banco Agrícola, Banco Salvadoreño, FJND, CALPIA, AMC de R.L. and CONAMYPE
06/23/03 – 06/28/03	Microfinance Study Tour	5	4	9	La Paz, Bolivia	MFI's Middle Management
06/14/03 – 07/05/03	Design of monitoring tools, design and redesign of new products	13	32	45	Main Office	ASEI's Microcredit Personnel
	<b>TOTALS</b>	<b>114</b>	<b>122</b>	<b>236</b>		

## SUMMARY OF CONSULTING ACTIVITY

CONSULTANT/TRAINER	Period	ASSIGNMENT
Juan Carlos Díaz	04/06 – 04/12	TA to Integral – Legal requirements SSF
Nancy Natilson	04/21 – 05/03	TA to Banco Agrícola y Banco Salvadoreño
José Linares Fontela	04/20 – 04/26	Training to credit unions-TA Acacsemersa
Howard Brady	04/27 – 05/07	Strengthen External Audits of MFI's
Gabor Simon	04/23 – 05/10	Follow up TOPAZ System and TA to AMC, FJND and BA
Ignacio Estevez	04/27 – 05/10	Arrears management and credit strengthening
Ignacio Estevez	05/26 – 06/06	Follow-up work for ACCOVI's credit and collections policies
Juan Carlos Diaz	06/08 – 06/14	TA to Integral to develop policies and procedures manual for liquidity management
Gabor Simon	06/10 – 06/21	Follow up TOPAZ System and TA to AMC, FJND and BA
Judita Eisenberger	06/22 – 06/27	Preparation of workshop outline for microfinance conf.
Nancy Natilson	06/23 – 06/28	Preparation of workshop outline for microfinance conf.
Rafael Pleitez	06/23 – 08/22	Preparation of a workshop for local policymakers for the microfinance conference

## FINANCIAL AND ADMINISTRATIVE INFORMATION

### LEVEL OF EFFORT

The following table presents the level of effort provided to the project through June 30, 2003, by the core FOMIR/DAI team and approved short-term expatriate and local consultancies. The "Contract-Approved LOE" is based on the actual starting dates of the key advisors, the additional of a Senior Microfinance Specialist (as of July 2001 amendment), and the contract termination date of September 30, 2003.

Type	Contract Approves LOE	Actual to Date	Remaining in Project
Chief of Party (DAI Expatriate)	60	57	3
Deputy Chief of Party	40	40	0
Financial Analyst	58	55	3
Microenterprise Specialist	35	35	0
Senior Microfinance Specialist	15	15	0



## FINANCIAL INFORMATION

As of Jun 30, 2003, the RFM project was approximately 95% percent completed. As of that date, FOMIR/DAI had expensed approximately 93.5% of the total project funds available.

### Budget and Expenditure Summary

11/03/98 – 06/30/03

(Amounts in 000s)<sup>3</sup>

Category	Budget Amount	Cumulative Spent	Remaining Amount	% of Budget Spent
Grants Administration	\$ 3,577,220	\$ 3,096,752	\$ 480,468	86.6%
IVA Refund for Grants Administration		\$ (49,490)	\$ 49,490	85.2%
Commodities and Equipment	\$ 118,626	\$ 78,596	\$ 40,030	66.3%
Grant Funds	\$ 9,004,856	\$ 8,972,423	\$ 32,433	99.6%
IVA Refund for Grants		\$ (222,076)	\$ 222,076	97.2%
Fixed Fee	\$ 427,264	\$ 394,141	\$ 33,123	92.2%
Total Budget	\$ 13,127,966	\$ 12,270,345	\$ 857,621	93.5%

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<sup>3</sup> Items may not add to totals due to rounding.

## **COST SHARING CONTRIBUTION**

The counterpart contribution report is found on the following page.



## **SUMMARY TABLES AND GRAPHS OF KEY INDICATORS FOR THE PROJECT**